



Economic Update

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REPORT TODAY SAYS GDP GREW 0.7%

The Bureau of Economic Analysis (BEA) announced this morning that real GDP grew at a 0.7 percent annual rate in the fourth quarter of 2002.

A Closer Look at the 4th Quarter:

Consumer spending grew at a 1.0 percent rate (adjusted for inflation), partly held down by slow auto sales. Although consumer spending has been a key contributor to the recovery since 2001, the last quarter was the slowest in several years.

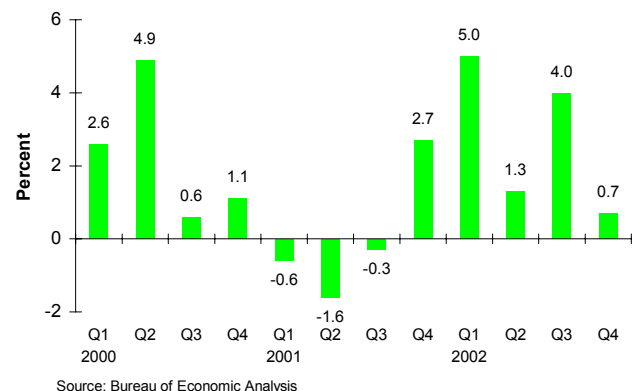
Business investment spending grew at a 1.5 percent rate. Declines in investment had pulled growth down throughout the last two years.

Inventories grew in the fourth quarter less than the third quarter, subtracting from growth. They remain at very low levels by historical standards, boding well for future growth as businesses produce more to restock their shelves.

What is GDP?

The Gross Domestic Product (GDP) is the most common measurement of overall activity in the U.S. economy. It combines dozens of measurements covering consumption spending, investment spending, government spending and net exports. The non-partisan Bureau of Economic Analysis (BEA) in the Department of Commerce measures GDP on a quarterly basis. Today's announcement for the fourth quarter of 2002 is an "advance" report that will be revised later with a "preliminary" report on February 28th and a "final" report on March 27th. You can access the GDP reports at www.bea.gov.

Real GDP Growth (Annualized)



Why did GDP grow so slowly last quarter?

As the chart above shows, GDP growth last year was moderate, but uneven. The average rate of GDP growth for 2002 was 2.75 percent. Auto sales slowed in the last quarter after a very strong third quarter (incentive financing plans may explain some of the variation). Weakness abroad held down net exports. Some commentators have speculated that overall the fourth quarter was unusually slow due to port closures on the West Coast last fall and uncertainties in countries such as Iraq and Venezuela. However, it should be noted that today's BEA announcement was an "advance" report based on source data that are incomplete and subject to further revision.